MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BAC2674 – TAXATION 1

(All sections / Groups)

19 October 2016
9.00am – 12.00pm
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 12 pages excluding the cover page with 5 (five) Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

QUESTION 1 (20 MARKS)

Atiqah was employed as an accounts manager with Tuah Bhd. since 1 September 2008. Due to some misunderstanding between her and the Managing Director of the company, her employment was terminated on 31 July 2015. She was 48 years old at the time she was terminated from the company. She received RM35,000 as compensation for loss of job. She was paid a gratuity of RM10,000. Her remuneration was RM6,500 per month. Upon her termination, Atiqah received from an unapproved fund (set up by the company) an amount of RM21,000 of which RM10,000 is in respect of her own contribution and RM11,000 in respect of her employer's contribution.

During the year 2015, while still in employment with Tuah Bhd. she also received the following benefits from the company:

i) Accommodation in a fully furnished condominium; the rental of RM2,700 (inclusive of the cost of furniture at RM800) per month was paid by the employer.
ii) A company car without fuel (cost when new: RM120,000). She hired a driver and paid him RM1,100 per month. This amount was reimbursed to her by the company.
iii) Leave passage amounting to RM27,500 was provided to Atiqah and her husband to Sweden and RM2,870 to Labuan, Malaysia.
iv) Monthly entertainment allowances and travelling allowances of RM300 and RM400 respectively.

Thereafter, from 1 October 2015 onwards, Atiqah was employed by Mutiara Bhd as a senior accounts manager. She received a monthly salary (net after deducting 11 % EPF) of RM6,230 and monthly travelling allowances of RM350.

During the year 2015, Atiqah incurred the following expenses:

		RM
i)	Medical expenses for her parents	7,200
ii)	Books and magazines	500
iii)	Annual medical insurance	3,600
iv)	Cash donation to an approved institution	1,000
v)	Zakat (evidenced by a receipts issued by an appropriate religious authority established under a written law)	2,150
vi)	Contributions to Employees Provident Fund	10,460
vii)	The Malaysian Institute of Accountants' (MIA) annual professional membership subscription	300

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In 2015, Atiqah also received a dividend of RM15,000 from her investment in Amanah Saham Bumiputera (unit trust approved by the government). Atiqah married to Ali and they were blessed with two children. The first child, Anisah, single, aged 24 years old, is working as a junior engineer in Singapore. The second child, Amirul, single, aged 17 years old, is a student in a secondary school.

Ali works as a senior lecturer at a private university in Kuala Lumpur from 1 October 2005. His income for the year end 31 December 2015 is as follows:

		RM
i)	Gross salary per annum	72,000
ii)	Bonus	9,000
iii)	Annual travelling allowance	1,800
iv)	Leave passages (for himself):	
	- Dubai	12,800
	- France	16,300
	- Terengganu, Malaysia	1,300
	- Sabah, Malaysia	4,180

Ali owns a house in Bandar Setia Alam, Selangor. He rented out the house since June 2013. The monthly rent is RM1,800. Ali incurred RM3,150 for house maintenances. He also wrote a book and in September 2015, he received RM23,000 as royalty.

The following claims are made by Ali:

i) Medical expense for his mother; RM4,200.
ii) Employees Provident Fund contributions; RM9,720.
iii) Zakat of RM2,050 for which he has a receipt issued by an appropriate religious authority established under a written law.

Required:

Compute the tax payable for Atiqah and Ali for the year of assessment 2015.

Note: Both are them are resident taxpayers. They do not elect for combined assessment but Atiqah will claim the child relief. (20 marks)

[Total: 20 marks]

Continued ...

QUESTION 2 (20 MARKS)

a) Mikail operates a sole-proprietorship business known as MMC Enterprise since 2010. The business commenced several years ago. The profit and loss account of the business for the year ended 31 December 2015 is appended below:

MMC Enterprise
Profit and Loss account for the year ended 31 December 2015

	Note	RM	RM
Sales		800,000	
Less: Cost of sales		(310,500)	
Gross profit			489,500
Add: Other income			
Rental income			8,200
Interest			12,900
			510,600
Less: Expenses			
Advertisement		5,700	
Bad debts	1	6,500	
Depreciation		8,450	
Entertainment	2	3,000	
Bank loan interest		2,300	
Accounting fees		3,790	
Subscription to political party		1,200	
Motor vehicle expenses	3	3,400	
Water and electricity	4	2,100	
Petrol and oil for sales vehicles		6,000	
General expenses		3,500	
Legal fees	5	4,200	
Staff salaries		85,000	
Compensation	6	2,500	
Loss on the disposal of an asset	7	800	
Approved training (staffs)	8	12,000	
			150,440
Profit before taxation			360,160

Notes:

1. Bad debt RM6,500
In addition to RM2,000 in respect of a trade debt written off, the bad debts charged to the account include an advance of RM4,500 made to an employee two years ago, which is now not recoverable. No provision has previously been made for the debt written off.

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2. Entertainment RM3,000
This amount includes RM1,000 in respect of a lunch treat for the company's clients to thank them for their overwhelming support of the business. The balance of RM2,000 was incurred on business promotional gifts which had incorporated the business product logo.

3. Motor vehicle expenses RM3,400
This refers to expenses paid for the following:

	RM
Insurance on motor vehicles used in the business	2,900
Traffic summons	500
	3,400

4. Water and electricity RM2,100
This is in respect of the following:

	RM
Water and electricity consumed	1,550
Late payment penalty on electricity bill	550
	2,100

5. Legal fees RM4,200
This refers to fees incurred for the following:

	RM
Collection of trade debts	2,500
Bank loan arrangements	1,300
Cost of income tax appeal	400
	4,200

6. Compensation RM2,500
This refers to a payment made to an employee injured at MMC Enterprise's business premises.

7. Loss on disposal of an asset RM800
This was computed as follows:

	RM
Disposal of assets	1,300
Net book value of asset	2,100
Loss on disposal	(800)

8. The training cost was incurred for the staffs who attended an approved courses in information communication and technology (ICT).

9. The capital allowances as computed for the company's assets for the year of assessment 2015 amount to RM6,800 and balancing allowances was RM1,400.

Continued ...

Required:

Compute the aggregate income of MMC Enterprise for the year of assessment 2015.

Note: Start your computation with profit before taxation figure and indicating 'NIL' in the appropriate column for item that does not require adjustment.

(15 marks)

b) Vinod is a manager with Grand Title Bhd. At the company's annual dinner held on 20 November 2015, he received the following:

- A watch costing RM3,980 for serving the company for 12 years; and
- A letter of appreciation and cash gift of RM2,000 for excellent service.

Required:

Explain the tax treatment on the benefits received by Vinod from Grand Title Bhd.

(5 marks)

[Total: 20 marks]

QUESTION 3 (20 MARKS)

PART A

Moon and Sun are partners in a food catering business, MS Catering since 2009. Each of them contributed capital in the amount of RM350,000 and RM150,000 respectively. The accounting year end of the business is 31 December each year. The terms of their agreement are as follows:

	Moon	Sun
Salary per annum	RM36,000	RM42,000
Entertainment allowances per annum	RM12,000	RM10,000
Travelling allowances per annum	RM9,600	RM10,800
Annual interest on capital contribution	5%	5%
Profit sharing ratio	65	35

Additional information:

1. The provisional adjusted income for the year ended 31 December 2015 was RM420,000.
2. Depreciation for the year amounting to RM52,000.
3. The capital allowance on the business assets for the year of assessment 2015 was RM97,000.
4. On 1 October 2015, Sun brought in an additional capital of RM50,000. Other terms of partnership remains unchanged.

Continued ...

5. Approved donations made by the business were RM10,000 to Malaysia Cancer Association on 30 June 2015 and RM6,000 to Islamic Relief Malaysia on 1 October 2015.

Required:

Compute the total income from MS Catering for Moon and Sun for the year of assessment 2015. (10 marks)

PART B

Prominent Sdn. Bhd. is a locally incorporated company which located in Selangor. The company specializes in manufacturing its own brand of water purifier called "Waterpro". The sales of Waterpro are handled by the appointed agents who are paid a minimum specified sum of commission irrespective of the sale made.

Recently, due to competition, the demand of "Waterpro" has started to fall. In order to reduce the operating costs, Prominent Sdn. Bhd. has decided to cancel the existing agreement with several agents by paying them a lump sum payment amounting to RM5 million.

Besides, Prominent Sdn. Bhd. also implemented the downsizing activity. The company made a lump sum payment of RM200,000 to compensate some selected employees who are being terminated during that period.

Required:

(i) Based on the information given, give reasons as to whether Prominent Sdn. Bhd. could claim the sum of RM5 million as a deductible business expense. (4 marks)

(ii) Smart Appliances Sdn. Bhd. is one of the agents who received a sum of RM1 million from Prominent Sdn. Bhd and subsequently went into liquidation as a result of the termination of contract between the company and Prominent Sdn. Bhd. Explain as to whether the sum received is a taxable income for Smart Appliances Sdn. Bhd. (3 marks)

(iii) Assuming Ahmad, 35-year-old, had been serving Prominent Sdn. Bhd. for 2 years and 3 months. He was being terminated by the company when the downsizing activity took place and paid a compensation of RM40,000. State with reasons, whether the sum of RM40,000 received by Ahmad is a taxable income. (3 marks)

[Total : 20 marks]

Continued ...

QUESTION 4 (20 MARKS)

G6 Sdn. Bhd. (G6) is a manufacturing company which has been in operation for 10 years and makes up its accounts to 31 December annually.

Details of G6's ***existing non-current assets,*** including assets disposed of, and ***new assets*** acquired in the year ended 31 December 2015 are as follows:

i. Existing assets and assets disposed of during the year ended 31 December 2015 as follows:

a) Production machine (classified as heavy plant and machinery)
The production machine was acquired on 1 October 2011 for RM30,000. The machine was damaged due to flood and was written off on 1 March 2015.

b) Inventory (stock) grading machine (classified as general plant and machinery)
The machine was imported from Germany on 21 August 2013 for RM235,000. The machine was subsequently sold for RM242,000 to a supplier on 30 December 2015.

c) Showroom and office administrative area
Construction was completed on 13 December 2013 at a total cost of RM550,000. The costs relating to the office administration area was RM34,000.

ii. ***New assets*** acquired during the year ended 31 December 2015 as follows:

a) Motor vehicle 1 (non-commercial)
A second-hand car was acquired on 17 February 2015 for RM105,000 for the use of G6's chief executive officer. The original cost of the car when new was RM145,000.

b) Motor vehicle 2 (non-commercial)
A new motor vehicle was acquired with hire purchase finance. Relevant details are as follows:

	RM
Costs	190,000
Deposit paid	46,000
Hire purchase loan (excluding interest) repayable in 48 equal monthly instalment commenced on 1 October 2015.	144,000

c) Renovation costs
RM36,000 was incurred on 11 March 2015 for an extension to the showroom. Included in the expenditure was tiling, walls, doors and electrical installations.

Continued ...

Required:

(i) Compute the capital allowances claimable, if any, by G6 Sdn. Bhd. on its existing assets for all of the relevant years of assessment up to the year of assessment 2015. You are also required to determine the balancing charge or balancing allowance on the disposal/write off of the production machine and inventory grading machine.

(10 marks)

(ii) Compute the capital allowances claimable in respect of each of the new assets acquired by G6 Sdn. Bhd. during the year of assessment 2015. (10 marks)

Note: You should assume that the provisions of Paragraph 71 of the Income Tax Act, 1967 are not applicable and therefore no claw back of capital allowances claimed for the assets disposed of within two years of acquisition will be made. You need to show all workings e.g. qualifying expenditure; initial allowance(s), annual allowance(s), residual allowance(s); balancing allowance(s)/charge(s) etc. for all the relevant years of assessment.

QUESTION 5 (20 MARKS)

Ms Dory, a Canadian citizen, arrived in Malaysia for the first time on 19 April 2010 to work as a lecturer in a private institution in Selangor. Her contract with the institution began on 1 May 2010 and ended on 31 July 2015. She left Malaysia permanently on 30 September 2015. Details of her stay in Malaysia are as follows:

Year	Periods of stay in Malaysia	Note
2010	19 April to 16 July 20 November to 31 December	
2011	1 January to 16 April 1 May to 20 August	1
2012	10 April to 1 October 5 November to 12 December	
2013	2 February to 31 May	
2014	15 January to 10 April	2
2015	1 July to 29 September	

Notes:

1. Ms Dory was in Australia from 17 April 2011 to 30 April 2011 attending an academic conference.
2. Ms Dory was in Singapore from 1 January 2014 to 14 January 2014 for a holiday.

Continued ...

Required:

(i) Determine the resident status of Ms Dory for the years of assessment 2010 to 2015. Give reasons and quote the relevant provisions of the Income Tax Act 1967 (as amended) to support your answer. (16 marks)

(ii) In your opinion, what are the benefits that Ms Dory will be entitled to if she is classified as a Malaysian tax resident in the basis period for the year of assessments. (4 marks)

[Total : 20 marks]

End of questions.

APPENDIX 1

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

Income tax rates for resident individuals for the year assessment 2015.

	Chargeable Income	Tax Rate	Income Tax Payable
	RM	(%)	RM
First	**2,500**	**0**	**0**
Next	2,500	0	0
On	**5,000**		**0**
Next	5,000	1	50
On	**10,000**		**50**
Next	10,000	1	100
On	**20,000**		**150**
Next	15,000	5	750
On	**35,000**		**900**
Next	15,000	10	1,500
On	**50,000**		**2,400**
Next	20,000	16	3,200
On	**70,000**		**5,600**
Next	30,000	21	6,300
On	**100,000**		**11,900**
Next	50,000	24	12,000
On	**150,000**		**23,900**
Next	100,000	24	24,000
On	**250,000**		**47,900**
Next	150,000	24.5	36,750
On	**400,000**		**84,650**
Exceeding	400,000	25	.....

Reliefs

	RM
Self	9,000
Special Personal relief (aggregate income ≤ RM96,000) (YA2013 & YA2015)	2,000
Disabled self- additional	6,000
Medical expenses expended for parents (max)	6,000
Medical expenses expended on self, spouse or child with serious decease, [including up to RM500 for medical examination (max)]	6,000
Basic supporting equipment for disabled self, spouse, child or parent (max)	5,000
Fees expended for skills or qualifications (max)	5,000

Expenses on books for personal use (max)	1,000
Spouse relief (if he or she has no source of income or elects for combined assessment)	3,000
Disabled spouse	3,500
Child (each)	1,000
Disabled child (each)	6,000
Child- over 18 years of age and studying in higher learning institution	6,000
Disabled child studying in higher learning institution	12,000
Amount deposited to SSPN for his child (max)	3,000
Life insurance premiums and contributions to approved provident funds (max)	6,000
Medical or education insurance premiums for self, spouse or child (max)	3,000
Purchase of personal computer (max)	3,000
Purchase of sports equipment	300
Interest paid on housing loan (1st residential property)	10,000
Broadband subscription fee	-
Private retirement scheme or annuity premium (max)	3,000
Premium on EPF annuity scheme (max)	-

Rebates

	RM
Chargeable income not exceeding RM35,000	
Individual	400
Individual who has been given a deduction in respect of a spouse or former wife	400

Value of benefits in kind

Car and fuel scale

Cost of car (when new)	Prescribed annual value of private usage of car	Fuel per annum
RM	RM	RM
Up to 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001- 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equal to half of the prescribed annual value (above) is taken if the car is provided is more than five (5) years old, but the value of the fuel provided remains unchanged.

Where a driver is provided by the employer, the value of the benefit per month is fixed at RM600.

Other benefits

Household furnishings, apparatus & appliances	
Semi-furnished with furniture in the lounge, dining room, or bedrooms	- RM70 per month
Semi-furnished with furniture as above and one or more of the following:	
Air-conditioners, curtains, carpets	- RM140 per month
Fully furnished premises	- RM280 per month
Domestic servant	- RM400 per month
Gardener	- RM300 per month

Capital allowances

	Initial allowance Rate (%)	Annual allowance Rate (%)
Motor vehicles and heavy machinery	20	20
General plant and machinery	20	14
Office equipment, furniture and fittings	20	10
Industrial building	10	3
Computer, information technology equipment & computer software	20	40

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